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SUBJECT: GOK ANNOUNCES PURCHASE OF ALMATY POWER CONSOLIDATED (APK)

11. (SBU) Summary: On June 27, Prime Minister Akhmetov announced last-minute plans for the GOK to purchase Almaty Power Consolidated (APK) after a disputed bankruptcy auction, scheduled for the same day, was cancelled for unspecified reasons. A leading opposition figure, later joined by deputies and the pro-presidential ASAR party, warned of asset stripping, and called on authorities to delay the sale. New York-based Access Industries, which intended to participate in the APK auction, charged that a leading bank short-circuited its bid by refusing to initial an already agreed upon loan guarantee. End Summary.

GOK SAVES THE DAY?

12. (SBU) Prime Minister Daniyal Akhmetov announced on June 27 that the GOK would purchase debt-ridden Almaty Power Consolidated (APK) and related assets after a foreclosure auction, scheduled on the same day, fell through for unspecified reasons. Creditor Halyk Bank sought to recover outstanding loans made to Almaty City Authorities (Akimat), the owner of APK. Halyk set a starting price of 8 billion tenge, around \$60 million, for assets that include two hydroelectric stations, three combined power/heating plants, Almaty's electric distribution system, and two of Almaty's major, if unrenovated hotels, the "Almaty" and the "Kazakhstan." The Akimat reportedly collateralized the hotels against loans to APK. Timur Kulibayev, presidential son-in-law and vice-president of state oil producer KazMunaiGas (KMG), is reported to have a controlling interest in Halyk Bank. Aleksandr Pavlov, the present boss of OTAN, the President's political party, is Halyk's chairman.

13. (U) Akhmetov justified the purchase by the need to prepare APK for the upcoming heating season. [Note: Access told us that the district heating system was not included in the auction, and that the city intended to continue to run it. End Note] Akhmetov's announcement contradicts a June 23rd statement by Almaty mayor and former head of the Presidential Administration Imangali Tasmagambetov. He said the city would not intervene to save APK, burdened under debts of \$150 million and poorly run. Moreover, the Ministry of Finance had also announced that the GOK could not intervene since it could not put a financing package together in time.

14. (U) State-owned KazTransGas, the KMG subsidiary that runs the natural gas pipeline infrastructure, will buy APK for the starting price of \$60 million. State authorities did not announce a concrete plan to turn around the ailing enterprise, though they intend to sell-off the two hotels.

OPPOSITION SMELLS A RAT

15. (SBU) Opposition figure Oraz Zhandosov, a former deputy prime minister and Central Bank chair, told us that APK and related assets are worth at least \$600 million dollars. [Note: One Western company we spoke with said that the Kapchagay hydropower plant alone was worth at least \$300 million. Access Industries, however, believed that the entire package as constituted was not worth much more than the \$60 million starting price, given APK's operating losses and investment needs, and the fact that the GOK currently requires all Kapchagay power go to APK at controlled, highly subsidized prices. End Note] Zhandosov charges that former Almaty Akim Viktor Khrapunov, who was transferred to Eastern Kazakhstan oblast in December 2004, colluded to bankrupt APK, and then strip its assets. The pro-presidential Asar party, along with about half of the deputies in the lower house of parliament, called on the government to intervene in the APK auction as well.

16. (SBU) Zhandosov opined that government officials would collude to limit access to the auction cancelled today by ensuring that no "unfavored party" had the legally required line of credit from one of two major banks here, TuranAlem and Kazkommertzbank. This, he charged, would ensure that an insider could get the assets for \$60 million.

ACCESS INDUSTRIES OUT IN THE COLD

17. (SBU) Access Industries, a U.S. company that is a coal operator and power producer here, told the Ambassador in a June 23rd meeting that it would participate in the auction, and sought advice, given the politically-charged environment around APK. Company officials pledged not to "flip the assets," and hoped to use the synergy of their coal supply,

combined with a tariff increase, to turn around APK. They saw a far less rosy balance sheet than Zhandosov, with APK debt equaling revenue, run-down facilities, and ridiculously low tariffs. Ambassador Ordway pledged embassy support provided that Access acted transparently and in accord with Western business practices.

18. (SBU) True to Zhandosov's scenario, the Access lead for the APK auction, Val Vaninov, told us on June 27 that on Friday, June 24th, officials of Kazkommerzbank refused to initial an already agreed upon loan guarantee, thus sabotaging Access' bid. Vaninov, accompanied by Access officials, camped out for four hours at Kazkommerzbank in a vain attempt to have bank officials sign the necessary documents. Access is exploring what legal action, if any, it can take against Kazkommerzbank.

19. COMMENT: (SBU) This story is far from over, and considerably more murky than even the now available facts would indicate. Access Industries and its President, Len Blavatnik, have a long-term and growing interest in Kazakhstan. They have just announced their intention to build a \$1 billion petrochemical facility in Atyrau, one of western Kazakhstan's oil boomtowns. Blavatnik told the Ambassador in early June that the GOK was leaning hard on him to take over the APK assets, and at that point he was not enthusiastic. The Access team that was doing due diligence had extensive and detailed discussions with the Almaty Akimat and were under the firm impression that the Akimat, and Akim Tasmagambetov himself, wanted to see Access take over the loss-ridden utility and turn it around, just as Access had done with the utility in Petropavlovsk.

110. (SBU) Although KMG vice president Kulibayev is the rumored owner of Halyk bank, Grigoriy Marchenko actually runs the bank. Former Central Bank chairman and former Deputy Prime Minister, Marchenko is the most highly regarded figure in Kazakhstan's financial circles and someone with an impeccable reputation for integrity. Halyk is about to announce a strategic partnership with a major western bank that will inject modern information systems and risk management into Halyk. The deal is set to close very soon. We suspect that Halyk may have needed to get this \$60 million non-performing loan off its books before closing its upcoming deal. Access was relying on Marchenko's reputation for financial probity in its decision to participate in the auction.

111. (SBU) It is not clear at this point whether the principal motivating factor for the cancellation of the auction was politics or greed. There definitely was a political bandwagon that was started by Zhandosov and his colleagues in the opposition, who were then joined by Asar and others in the pro-presidential camp. The authorities may have decided that the political price was simply too high. The fact that Access was encouraged to participate in the auction would bolster that explanation, as would Access's conclusion that the assets are not worth substantially more than the asking price. On the other hand, we cannot exclude the possibility that this was all an elaborate charade designed to divert large amounts of cash into private pockets. If this is the case, we would expect to see the two hotels sold off either directly to a developer, or indirectly via an inside deal. The other possibility for significant gains would be to change the licensing terms for the Kapchagay hydroelectric plant and allow it to sell power at market price -- which would raise its value dramatically. (The downside would be that this would require a significant increase in Almaty power tariffs.)

112. (SBU) We very much doubt that KazTransGaz will be able to turn around APK. This latter would require (a) reducing expenditures; (b) major investment in deferred maintenance and capital upgrades; (c) vigorous collection efforts, including against politically well-connected industrial customers; and (d) strong action against any insider power theft, and (e) regular tariff increases. The alternative is for KazTransGaz and its parent to continue to pour money into APK's operations. Access told us that APK is currently losing \$40-\$50 million a year. It's hard to see what KMG's motivations would be to sustain such large losses on a long-term basis, particularly given investment needs in their core oil and gas business.

113. (SBU) One possible scenario would be for KazTransGaz to

run the utility until after the presidential election -- and

then try to either sell it or put it under an international management contract. Whether Access or another reputable Western company would be willing to take it on at that point is an open question. In preparing its bid for APK, Access told us that they would have preferred having an additional six months or more to do due diligence and more negotiation on the terms of operation.

14. (U) Minimize considered for Dushanbe.

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